

The right to work versus the right to retire

No more time for ageism

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Michaela Grimm
Senior Economist
Michaela.Grimm@allianz.com

Arne Holzhausen
Head of Insurance, Wealth
and Trend Research
Arne.Holzhausen@allianz.com

EXECUTIVE SUMMARY

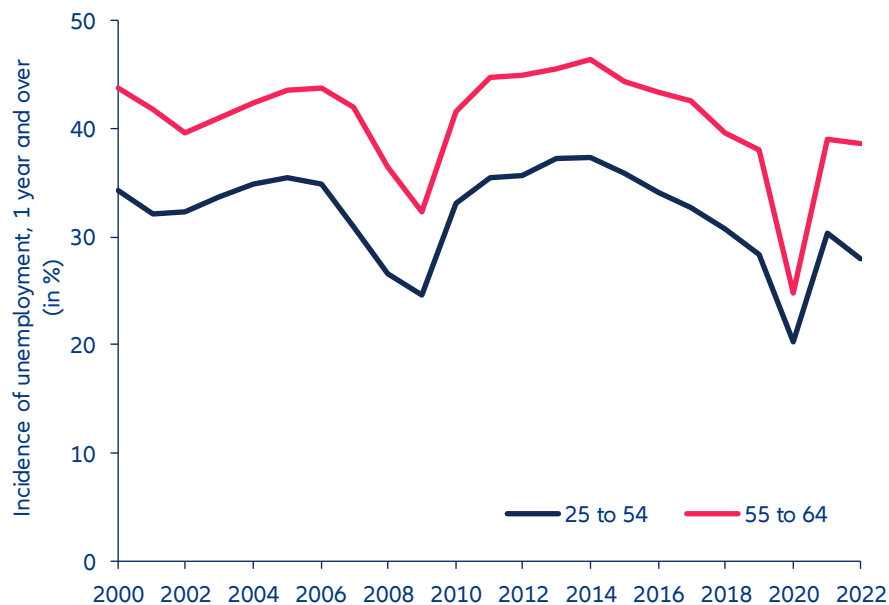
- **Ageism is still pushing older workers out of the labor market: In the EU only 51% of the population aged between 60 to 64 is still active on the labor market.** The main causes are difficulties to find an adequate job and long-term unemployment in higher ages since negative stereotypes about older workers persist.
- **Demographic change amplifies the need to be more inclusive of older workers: 30% of the global workforce will be aged 50 and older by 2050.** The growth of the working-age population is set to slow down in every region except Africa and turn negative in Europe. In this context, retaining older workers and providing incentives to postpone retirement will become all the more important.
- **Retirement age has a marked impact on labor force participation rates in higher ages. Therefore, an important measure might be a new approach to retirement.** Arbitrarily set mandatory retirement ages do not take into account developments in life expectancy or differing job requirements. In Singapore or Sweden, where older workers have the right to get re-employed or to work until the ages of 68 and 69, respectively, the labor force participation rates of older workers are markedly higher. Similar measures implemented EU wide, could add 6mn people to the workforce in 2050.
- **Sustained efforts of companies are needed to adapt the labor markets to the needs of an aging workforce population.** Measures to improve the age friendliness of companies include granting more flexibility with respect to working hours and place of work, fostering lifelong learning by offering training and career development opportunities to all age groups, promoting the building of age-diverse teams to foster knowledge transfer, offering health and prevention programs, designing workplaces ergonomically and training staff to fight against (unconscious) age biases.
- **Government support measures play an equally important role.** These include subsidies for companies that hire long-term unemployed older workers, subsidizing training programs for low-skilled and older workers or mobility grants for older workers who need to relocate. Introducing flexible retirement options that allow for a combination of pension and labor income could facilitate a flexible transition from work to retirement. National campaigns to combat ageism could support cultural change. But in the end, the success of all these measures depends also on the older workers themselves, who need to ask for lifelong learning and training possibilities, and be open to sharing their knowledge to actively refute preconceptions.

Ageism is still pushing older workers out of the labor market, hampering pension reforms

Job seekers aged 50 and older take twice as long to find new employment compared to young workers. Against the background of aging societies and increasing life expectancy, retaining older workers¹ and providing incentives to postpone retirement are key to improving the long-term sustainability of pension systems, and cushioning the demographic impact on the labor market. In fact, many countries have already introduced measures such as granting credits for long work histories or postponing retirement and tightened the conditions for early retirement. But further increases of the retirement age² are often still ruled out by politicians.

Recent protests against the increase of the retirement age in France and Uruguay as well as the strong reactions to the proposal of the opposition to abolish the possibility of retirement at the age of 63 for those insured for at least 45 years in Germany, illustrate the politically charged nature of the issue. Protests and resentment are fueled by the fear of being unable to find an adequate job at an older age and being pushed into prolonged unemployment before reaching the retirement age³. And these fears are rather valid, considering that job seekers aged 50 and older take twice as long to find new employment compared to young workers. Moreover, in most countries, the share of long-term unemployment is still markedly higher in the age group 55 to 64 than in the average workforce population. In the OECD, the share has been 8.7pps higher on average than in the age group 25 to 54 since the turn of the century. In 2022, the gap reached 10.7pps after a dip to 4.5pps during the Covid-19 pandemic. 38.6% of older workers were unemployed for longer than one year compared to 28.0% of the workers in the age group 25 to 54 (Figure 1).

Figure 1: Unemployed for longer (OECD average)



Source: OECD.

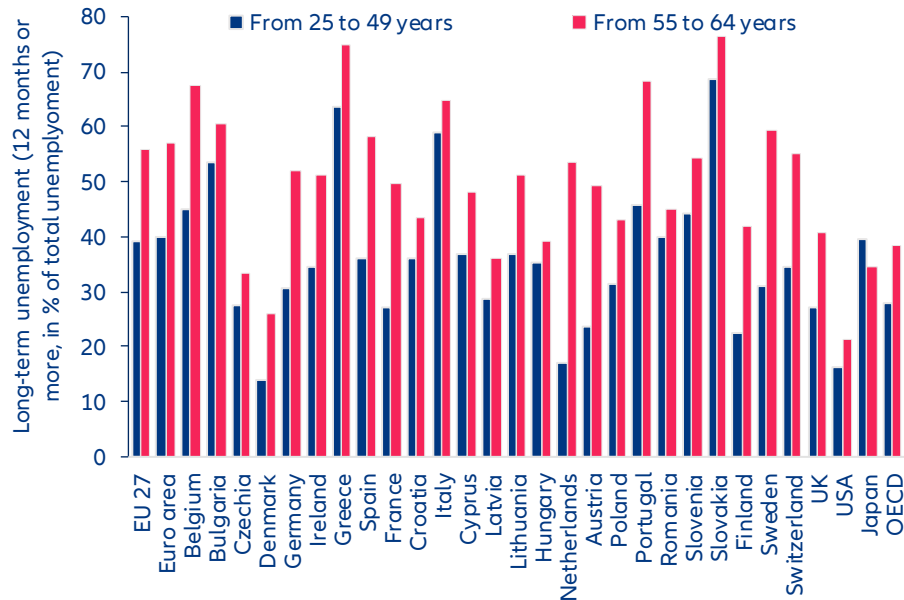
¹ There is no single definition of an “older worker”. In some countries, workers and employees aged 45 and older are considered older workers. However, the most widely used age range is 55 to 64, see Mandl, Irene et al. (Eurofund) (2018), p. 27f.

² In 2023, the retirement age was above 65 years in only 14 of the 75 countries that we covered in our pension report. See Allianz Global Pension Report 2023.

³ See Alderman, Liz (2023).

However, there are marked differences between the countries and regions: In the EU, 53.4% of the unemployed aged between 55 and 64 had been unemployed for more than one year, compared to merely 36.7% in the age group of 25-49. In Slovakia, this held true for 76.3% of older workers, while the rate was only 21.2% in the US. Japan is an exception, with long-term unemployment among older workers (34.4%) less than that of younger workers (39.6%) (Figure 2).

Figure 2: The incidence of long-term unemployment increases with age



UK, USA, Japan, and OECD age group 20-54.
Sources: OECD, Eurostat

What is keeping older workers out of the workforce for longer? The reasons given are for example a lack of current skills or formal qualifications, the lack of recent experience in applying for jobs and a lack of self-confidence in presenting themselves. Above all, however, negative stereotypes about older workers persist, including that older workers are less productive, motivated, flexible and adaptable than younger workers, and that they are not only more difficult to train but also that it is not worthwhile for employers to invest in their training and development, given their foreseeably shorter tenure. There are also stereotypes about their health and cognitive abilities declining, leading to more sick days, and, most importantly, that they are expensive because they receive higher wages and benefits than younger workers.

A recent AARP (American Association of Retired Person) survey found that around 78% of people aged between 40 and 65 reported to have either witnessed or experienced ageism in the workplace and 62% of the people aged 55 and older looking for work said they were experiencing age discrimination during their job search. The latter is supported by an international survey amongst global employers, of which only 39% trained their staff on how to avoid age discrimination in the hiring and recruitment process⁴ as well as a recent publication of the Australian HR Institute according to which only 12% of HR professionals proactively targeted older workers in the recruitment process and merely 30% of companies trained their staff with recruitment responsibilities to ensure all recruitment practices are free of age bias.⁵ Reasons given for not employing older workers were the typical concerns about physical ability, technological proficiency and ability to change. However, that these perceptions are merely

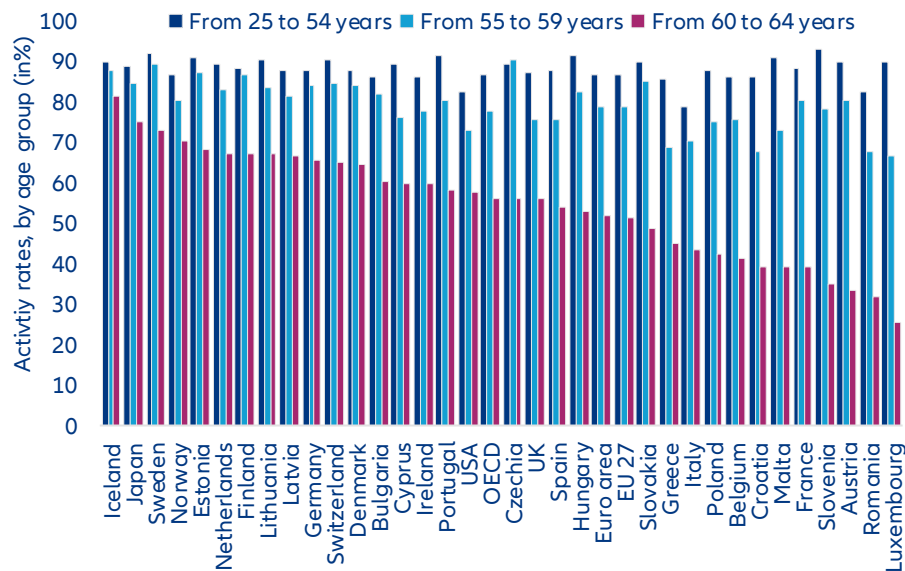
⁴ See Perron, Rebecca (2020), p. 5.

⁵ Australian HR Institute (2023), p. 16 and chart p. 17.

prejudices was evidenced by the very same survey: more than 50% of the respondents saw no difference with respect to adapting to change between younger and older workers and only 30% saw younger workers performing better in that respect.⁶ In fact, 69% of the Australian HR professionals saw no difference between older and younger workers with respect to job performance. While 27% ranked the job performance of older workers higher, only 5% rated younger employees higher.⁷ Yet prejudices die hard: the same HR officials were nonetheless reluctant to hire older workers despite the positive experience with their older employees.

Despite improvements in recent decades, only 51% of workers aged 60-64 were still active in the EU labor market in 2022. As a consequence, many workers aged 55 and older who lose their jobs either take up lower-paid work or drop out of the labor market entirely. For the OECD countries, 56% of workers aged 60-64 were still active in the labor market but once again, there are significant differences between countries. In the countries with the highest activity rates for workers aged 60 to 64 – Iceland (81.4%), Japan (75.2%) and Sweden (73.1%) – around three out of four older workers were still active on the labor market. However, this held true for only a third of the older workers in Austria (33.6%) and Romania (32.0%) and for merely 25% in Luxembourg (Figure 3).

Figure 3: Labor force participation rates drop with age



Sources: Eurostat, OECD

Demographic change amplifies the need for including older workers

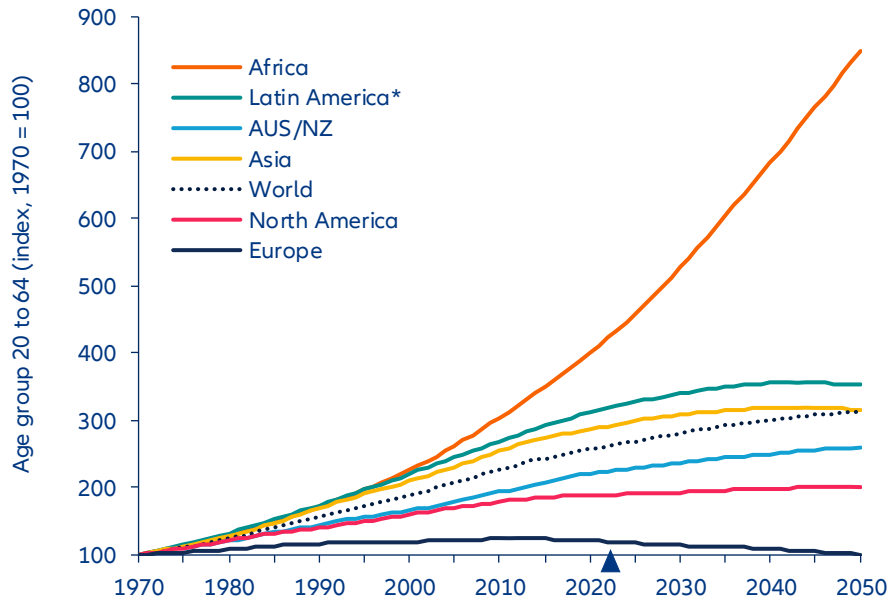
The growth in the working-age population aged 20-64 is set to slow down markedly in every region except Africa, and even shrink in Europe. In this context, including older workers is even more essential. Since the end of the baby boom, the global number of people in working age has increased by an average +1.8% per year, with the average annual growth rate ranging between +0.3% in Europe and +2.8% in Africa. In Asia and Latin America, average growth was also above +2% and in North America the number of people aged between 20 and 64 increased

⁶ Australian HR Institute (2023), figure 3, p. 10.

⁷ Australian HR Institute (2023), p. 8. C. A. Viviani et. Al (2021) also found no evidence for lower productivity of older workers when conducting a literature review.

by an average +1.2% per year. While this dynamic is set to continue in Africa, with an expected average increase of +2.5% per annum until mid-century, there will be marked changes in the other world regions due to declining fertility rates and baby boomers starting to retire. In Asia and Latin America, workforce population growth is going to slow down to an average +0.3% per year, while in North America it is expected to reach a mere +0.2% per annum. Europe will have to cope with an average decline of the population in this age group of -0.6% per year (Figure 4).

Figure 4: Growth of working-age population slows down



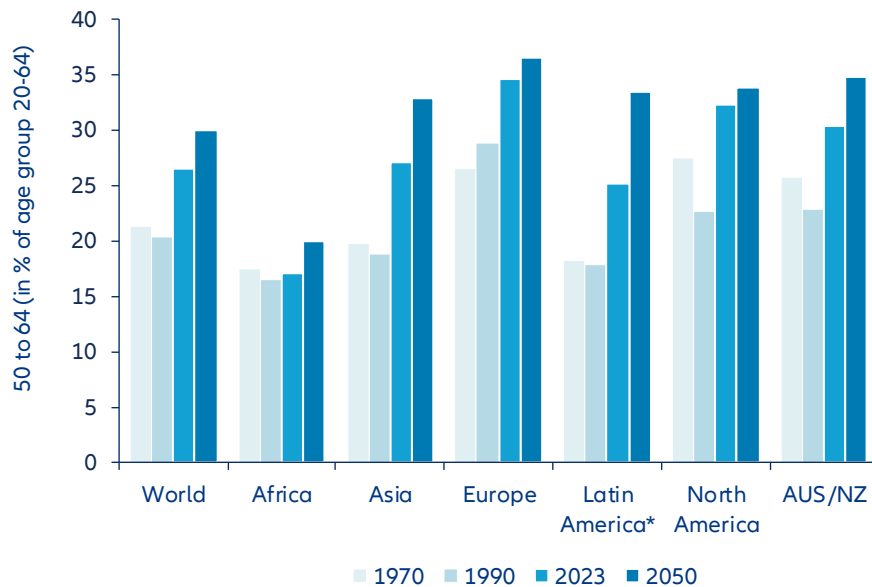
* Latin America and Caribbean

Source: UN Population Division (2022)

In absolute figures, the global population aged between 20 and 64 years is set to increase from 4.6bn today to 5.4bn until 2050, driven by the development in Africa. However, it is set to decline from 439mn to 370mn today in Europe. In the EU 27, the number of people in this age group is expected to drop from 263mn today to 217mn in 2050. In North America, it is expected to increase from 221mn to 233mn. In Latin America, it is expected to reach 436mn, after peaking at 440mn in 2043. However, Latin America's biggest economy, Brazil, will already have to cope with a declining workforce from 2038 onwards. In Asia, which will remain the most populous continent, the number of people in this age group is set to increase from 2.8bn to 3.0bn, especially driven by the developments in India, since the working-age populations in China and Japan are set to decline from 901mn to 718mn and from 67mn to 47mn, respectively, until mid-century.

During the same period, the share of people aged 50 and older in the working-age population is set to climb above 30% in all world regions but Africa, with the shares ranging from 32.8% in Asia to 36.5% in Europe. In short, a third of the global working-age population (1.6bn people) will be aged between 50 and 64. However, in China, Brazil, Japan and the EU 27, the shares of mature workers in the total workforce population will be above the respective regional average. In China, this share is set to increase to 40.1% until mid-century; in Japan it will reach 38% after peaking at 41.3% in 2032, while in Brazil 36.1% of the workforce population is expected to be 50 or older. In the EU 27, the share will reach 36.8% after peaking at 37.3% in 2042 (Figure 5).

Figure 5: The global workforce population is aging



* Latin America and the Caribbean.

Source: UN Population Division (2022).

These shares are set to increase even further due to the already agreed upon increases in the retirement age above 65. In Germany, for example, the increase of the retirement age to 67 years is set to add 2mn people aged 65 and 66 to the working age population in 2050, thus pushing the share of those aged 50 and older in the workforce population above 40%.

Against the background of these demographic developments there is an urgent need to (re)activate and retain the older workers in the labor market, to cushion the effect of demographic change on labor supply. This holds especially true for the EU member countries, where the population in the age group 20 to 64 is set to shrink markedly. If the labor force participation rate in the age group 60 to 64 in all EU countries were to rise to today's level in Sweden, the number of people available on the labor market in this age group would increase from 15.3mn today to 20.3mn in 2050. For comparison: if today's labor force participation rates in this age group remained constant in each of the EU 27 countries, their number would decrease to 14.2mn.

What does this mean for policymakers?

Governments and companies both need to make efforts to overcome stereotypes about older workers and adapt labor markets and workplaces to the needs of an aging population. This holds especially true against the background that many companies still do not seem to have a structured approach to deal with workforce aging⁸ and only a minority of employers has implemented policies to support a multigenerational workforce so far.⁹ However, efforts in this respect are not only needed to cushion the impact of demographic change; building and supporting multigenerational work environments can also help to improve job satisfaction

⁸ See Berg, Peter and Matthew M. Piszcek (2022).

⁹ "A recent survey conducted by AARP Global Employer Survey 2020 shows that no policy area has more than 6% of employers that have implemented policies targeted at supporting a multigenerational workforce, such as unbiased recruiting processes and return-to-work or phased retirement programmes." OECD (2022): Report on the implementation [...], p. 21.

across all age groups. In a recent global AARP study, 70% of older workers¹⁰ who worked in a multigenerational environment said they are satisfied or extremely satisfied with their job compared to 63%, who did not. The same holds true for 73% for workers in the group 25 to 44 compared to 67%, respectively.¹¹

Reasons for the slow adaption of the companies might be on the one hand that until recently the impact of demographic change was hardly felt on the labor markets on the one hand and persisting stereotypes about older workers on the other. According to the latest global AARP survey, 55% of older workers had completed job-related training in the past five years and among those who did not 41% said they would be interested in future trainings.¹² However, many employers are reluctant to offer trainings to older employees assuming that investments in the qualification of older employees do not pay off due to a relatively shorter future tenure. Besides the fact, that thus the productivity of the workforce declines in the long run, this means mixing up tenure with age. Statistics show that younger workers tend to change their jobs more frequently and tend to stay a shorter time with an employer than older workers.¹³

Measures to adapt workplaces to the needs of an aging workforce population include not only fostering lifelong learning, but also more flexibility with respect to working hours and place of work, as well as promoting healthy aging in the workplace. Measures such as offering part-time or remote work, health management or ergonomically friendly workplaces¹⁴ are often primarily aimed at improving the age-friendliness of a company. But in fact, they also benefit younger workers and make a company more attractive for other population groups as well. According to the findings of a recent study, age-friendly jobs have not only benefited older workers, but also women and college graduates, who take these jobs in equal numbers as they obviously have the same occupational preferences as older workers.¹⁵

However, the single most important measure might be a new approach to retirement. Arbitrarily set mandatory retirement ages neither reflect the diversity in the health status of individual workers nor the differences in job requirements. Shifting away from the chronological age of workers and employees for retirement would go a long way to increase employment among old workers.¹⁶ In fact, in many of the countries with the highest labor force participation rates in higher ages currently, the mandatory retirement age has already been increased above 65 years or there is no mandatory retirement age in the narrower sense. This means workers implicitly have the right to work longer and to retire at a higher age. Prominent examples are Sweden, which reports one of the highest employment rates in higher ages within the EU, and Singapore, where 47.5% of population aged between 65 and 69 is still active on the labor market. In both countries, the earliest retirement age is currently 63, but workers have the right to work until age of 68 in Singapore and 69 in Sweden. In Sweden, they can also work for longer if the employer agrees and, furthermore, there is no upper age limit with regard to earning pension rights. In Singapore, the retirement age is 63, while the re-employment age is 68. That means employers are not allowed to dismiss any employee below the retirement age of 63 because of the employee's age and they must offer re-employment to eligible employees who

¹⁰ Here defined as the age group 45 and older. See Choi-Allum, Lona (2022).

¹¹ See Choi-Allum, Lona (2022), p. 6.

¹² See Choi-Allum, Lona (2022), p. 4f.

¹³ In 2019, average job tenure of workers aged 30 to 54 was 10 years, and that of workers aged between 55 and 64 18 years and 10 months. See OECD (2023): *Retaining talent at all ages*, p. 19.

¹⁴ See for example Hall, Martin and Andrea Rathbone (2016):

¹⁵ See Acemoglu, Daron et al. (2022), p.2.

¹⁶ See UNECE (2019), p. 7. In this case, the mandatory retirement age is seen as giving an employer the right to terminate a work contract without giving a further reason or consent of the employee.

turn 63 up to the re-employment age of 68.¹⁷ In Japan, reforms implemented in 2021 aimed at encouraging companies to increase the employment of workers aged between 65 and 70 years.¹⁸ In Germany, the gradual increase of the retirement age as well as the introduction of the so called Flexi Pension, which incentivizes later retirement by granting an additional 0.5% increase of pension benefits for every month retirement is postponed, and the abolition of additional earning limits aim at increasing the participation of older workers in the labor market.¹⁹

Pension system reforms need to be accompanied by labor market policies to support the increase of labor market participation rates in higher ages. The government of Singapore, for example, also takes an active role by offering financial incentives such as the Senior Employment Credit, which provides wage offsets to employers that hire senior workers to adjust to the higher retirement age and re-employment age, as well as a part-time re-employment grant to employers who offer part-time re-employment. There are also other flexible work arrangements and structured career planning available to senior workers or a so-called Senior Worker Early Adopter Grant to incentivize companies to adopt a higher internal retirement and re-employment age above the statutory requirements.²⁰

However, there is no one-size-fits-all approach with regard to the labor market policies to foster the (re)employment of older workers. In many European countries, it is not only pension system reforms that seem to have had a marked impact on the increase of labor force participation rates in higher ages. To some extent, “less stringent employment protection legislation and more wage flexibility for the labor markets as a whole” might have also contributed to this development.²¹ Granting employment subsidies did not prove to be a successful measure in every country, given the potential deadweight losses and substitution effects. Offering public work programs showed only some positive short-term effects, while mandatory job search activities proved to be successful but with a time lag. Thus, the key for improving the employability of older workers and retaining them in the labor market are measures taken at the company level: the offer of training, part-time work, addressing age discrimination and fostering an age-diverse environment.

¹⁷ In Singapore, both the retirement and re-employment ages are set to increase to 65 and 70 respectively by 2030. In Sweden, the earliest retirement age will be gradually increased in line with life expectancy from 2026 onwards.

¹⁸ “Companies shall either offer re-employment or extension of the employment contract to their older workers up to the age of 70 as part of the continued employment system, extend mandatory retirement age to 70 years or abolish the mandatory retirement system, introduce a system for concluding business outsourcing contracts until age 70 years; or introduce a system that allows employees to engage in social contribution projects carried out by the employer or organisations to which they have entrusted or invested, etc., for example a non-profit organisation, until age 70 years.” See OECD (2022)

¹⁹ See Deutsche Rentenversicherung (2023).

²⁰ See Ministry of Manpower Singapore (2023): Employment practices.

²¹ See Bodnár, Katalin and Karolin Nerlich (2020), p. 112.

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